7.1% in the pre[illegible] growth, at 27.1%, tracked volume growth [illegible] monthly revenues per subscriber. Cellular average [illegible] per subscriber was $59 in 1Q96, down from $60 in 4Q95. Cellular operating cash flow margins of 40.3% were below the 42.2% in 4Q95 because of the inclusion of December 1995 marketing expenses in 1Q96. BLS's cellular operating cash flow margins remain at the high end of the industry, with the domestic cellular business contributing $76 million in 1Q96 net income.

Foreign cellular subscribers increased 200,000 to 855,300, with BLS's interest in Latin America accounting for a large part of the non-U.S. cellular business. Latin America revenues increased 23% on a year-to-year basis to $103 million, while net earnings decline 18.2% due to approximately $4 million in losses from a currency devaluation in Venezuela, as well as a decline in monthly revenues per subscriber to $87 versus $104 in 4Q95.

Total operating revenues in the first quarter grew 7.7%, normalized for the sale of BLS's paging operations in October 1995. This quarter's revenue growth rate was below the previous quarter's 8.4% normalized year-to-year gain. BLS's revenue growth resulted from increased marketing initiatives, but was paced by a 7.3% rise in operating expenses after normalizing for the after-tax $344 million gain from the sale of BLS's paging service. Interest expense returned to more normal levels, up only 3.4%, compared to the double interest hit taken in 4Q95 related to its 100-year bond. Total BLS employees were down 6.3% year to year, or by 5,755.

Telco revenues were up 7.0% in the first quarter, normalized for a change in the fee arrangement between BLS's directory publishing subsidiary and BLS telecommunications, above the 6.1% growth in 4Q95. The quarter included a net $15 million positive impact from fewer rate reductions and reduced sharing accruals. Telco revenue growth was boosted by a 21.1% year-to-year increase in vertical services to $220 million, with second access lines contributing $100 million in the quarter. BLS generated this level of revenue growth despite a 26.3% drop in toll revenues, mostly due to the expansion of local area calling plans. Telco revenue growth outpaced the 3.6% growth in telco expenses. Continued workforce reductions helped keep cash operating expenses up only 2.0%. BLS' telco workforce was reduced by 5,139, or 7.0% year to year. BLS will be trimming its total workforce by another 11,300 over the next two years. Telco employees per 10,000 access lines improved 11.4% to 31.8 in 1Q96 versus a year-ago level of 35.9 employees per 10,000 access lines. This is still above the RHC average, but with its additional cuts, BLS should make considerable progress in improving its productivity, estimating a level of 25-26 telco employees per 10,000 access lines by the end of 1997.

NYNEX (NYN)

Rating: Hold

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E	12/97E	12/96E	12/97E	Divd	Yield
46 1/8	59-39	$3.27	$3.60	$3.90	12.8	11.8	$2.36	5.1%

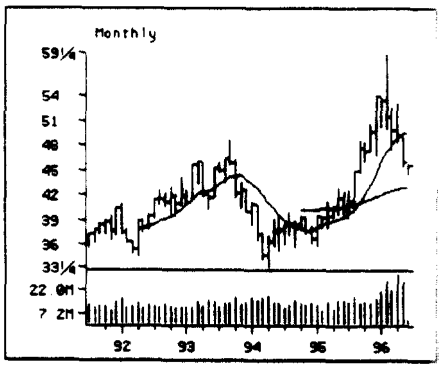
* Operating EPS

Highlights

Operating EPS 2Q96E $0.90 versus $0.81 in 2Q95

- **Strong EPS growth ahead of expectation**. NYN reported 1Q96 operating EPS of $0.83, before one-time items, a penny above our $0.82 operating EPS estimate, and 15.3% higher than the $0.72 operating EPS in 1Q95.

- **Stronger revenue growth, both telco and non-telco, combined with strong cost control efforts,** resulted in a 10.6% improvement in operating income, normalized for one-time items. NYN generated the highest consolidated revenue growth (5.6% excluding cellular) we have seen in some time, driven by stronger volumes and value-added revenues.



Courtesy of ILX

- **Raising EPS estimates; maintaining hold rating**. We are raising our EPS estimates for 1996 and 1997, to $3.60 and $3.90, respectively, which reflects improving revenue growth within the targeted 6%-9% range, inclusive of cellular revenues, and continued benefits from its process engineering, offset by higher expenses for new initiatives such as long distance, video, and PCS, which will likely dilute earnings as these initiatives ramp-up in the late 1996-97 time frame. NYN's strong quarter, reflecting its improving telco operations with price regulation for 95% of its revenues, confirms our belief that the combination with BEL will result in a powerful player in the global telecom industry. We target a 12-month price for NYN shares in the upper $50's, based on moving to a group multiple on our revised 1996 earnings estimate.

Investment Position

NYN's operating EPS of $0.83, before numerous one-time items, was a penny above our $0.82 estimate and 15.3% above 1Q95's $0.72 operating EPS. The quarter exhibited the strongest telco revenue growth in years, reflecting strong volume trends and high (37.9%) growth in value-added services. NYN's non-telco revenues continue to grow robustly, particularly its cellular revenues (up 29.6% year to year) which have been deconsolidated. Coupled with the stronger revenue growth were increasing benefits from its aggressive downsizing plans and improved cellular operating margins, which translated into the double-digit EPS growth. **We believe that NYN's strong results bode well for the pending merger with Bell Atlantic (BEL-67 1/4-Buy), confirming our belief that the combined entity will be a force in the expanding telecommunications industry.** NYN is ahead of many of its peers in its target entry date for in-region long distance, (October 1996 for New York) and announced an agreement with Sprint for out-of-region transport, as well as other services (i.e., billing and back-office operations). NYN also intends to begin offering out-of-region international long distance service to its customers. We believe that movement toward these new initiatives and the strong operating results already being achieved will allow the merged company to hit the ground running once the merger is closed. We are raising our 1996 and 1997 earnings estimates by $0.05 per share to $3.60 and $3.90, respectively, to reflect NYN's expected higher revenue growth and benefits from process reengineering, partially offset by higher marketing costs and dilution from new initiatives that will ramp up in late 1996 and into 1997. We are maintaining our Hold rating at this juncture, moving toward the group average multiple for the NYN shares, or roughly $57 per share, which provides about 14%-18% total return. We do expect positive benefits from its merger with BEL, which we believe has a high probability of being completed in the next 12-15 months.

First Quarter Highlights

NYN's 15.3% growth in first quarter operating earnings per share was before several partially offsetting one-time items, including: (1) a $66.5 million after-tax charge ($0.16 per share) related to its special pension enhancement; (2) a $45.8 million after-tax gain ($0.11 per share) on the sale of its investment in Vanstar Corporation; and (3) a net gain of about $4 million ($0.01 per share) for a change in accounting principles related to its directory business ($0.30 per share) offset by various charges for legal/tax liabilities, true-ups, and revenue reserves for potential refunds. Operating EPS in 4Q95 is before a $53.8 million after-tax charge ($0.13 per share) related to its special pension enhancement. On a reported basis, NYN's EPS in 1Q96 was $0.79 vs. $0.59 in 1Q95. The year-to-year increase in operating EPS is mainly due to the stronger revenue growth, inclusive of a net $26 million in rate reductions, driven by strong telco volumes, value added services, and continued cost controls, translating into a 10.6% increase in total operating income, after normalizing for the one-time charges and the deconsolidation of cellular results. NYN's normalized operating margins improved 100 basis points year to year, to 21.4% in 1Q96 compared to 20.4% in 1Q95. In addition, BEL/NYN Mobile continued to exhibit strength in the quarter, contributing about $0.10 to NYN's EPS. This is the last quarter that NYN will benefit from a full quarter of the set aside elimination associated with the implementation of its price cap plan in New York, which contributed about $38 million in incremental revenues in the quarter.

Access lines grew 3.6% in 1Q96, above the 3.4% in 4Q95, driven by second lines and higher business line growth, particularly Centrex lines. Total business lines were up 7.0% in 1Q96, above the 6.7% level in 4Q95, with very strong growth in the more profitable Centrex lines, up 16.2% in the quarter versus 14.5% 4Q95. ISDN lines, though still a small part of the total, increased to 97,000 in 1Q96, up 65% year to year and 7.8% sequentially. NYN plans to deploy one million ISDN lines by the year 2000. Residential access lines increased 2.0% year to year in 1Q96, nearly in line with the 2.1% growth in 4Q95, with second lines improving to 1.3 million lines after 12.2% year-to-year growth.

Total minutes of use growth of **11.0% in 1Q96 was above the 10.4% growth in 4Q95**, likely helped by the severe winter weather in the northeast. Intrastate minutes were up 19.7% year to year, compared to 21.2% growth in 4Q95. NYN (like all the RHCs) is seeing lower toll revenues translate into higher intrastate access minutes and revenues. Interstate minutes of use grew 9.5% in 1Q96, above the 8.7% growth level in 4Q95.

Total consolidated revenues in 1Q96 were 5.6% higher than the prior year's quarter, inclusive of $26 million in rate cuts, and normalized for one-time items. The rate cuts include a $38 million positive impact for the elimination of NYN's set-aside provision in New York as part of its price cap plan offset by $64 million in rate reductions. Total revenues no longer contain wireless results which were deconsolidated as part of the cellular merger with Bell Atlantic, but when this revenue is included NYN's revenue growth was 6.9% compared to 5% on a similarly measured basis in 4Q95. Value added revenues, including PhoneSmart, Voice messaging, and Voice dialing were up 37.9%, about in line with the 40% growth in 4Q95. Revenue growth outpaced total operating expenses which were up 4.3% on a normalized basis, excluding the one-time items mentioned above. The lower expense growth reflects NYN's stringent expense control efforts, which included a 6.9% net reduction in total employees, or 4,862 employees. We expect additional declines in employees of between 4,500 and 5,000 in 1996, which will complete the company's planned 16,000 employee reduction program with continued cost savings.

Telecommunications. This segment's revenues grew 5.1%, including the incremental $26 million in net rate reductions, well above the 3.3% growth level in 4Q95. NYN's telco revenue growth was driven by the stronger access line and minutes volume growth in the quarter, along with the 37.9% annual increase in value-added service revenues. Cost controls continue to have a beneficial impact with telco expenses up only 4.3% year-to-year. Telco cash flow margins were 45.7% in 1Q96, up from 44.0% in 4Q95 and 45.3% in 1Q95. With the 4.5% reduction in the telco workforce year to year or 2,834 employees, NYN stands at 35.0 telco employees per 10,000 access lines, or a 7.8% improvement over 1Q95's 37.9 telco employees per 10,000 access lines. The 1Q96 level increased slightly from 4Q95 due to additional temporary employees to assist NYN with its higher demand. Expect 1,000-1,500 temporary employees to be added as NYN restructures its workforce making a greater use of temporary employees to meet the peaks and valleys in demand.

Cellular. NYN retains a 37.65% interest in BEL/NYN Mobile, after the merger of its cellular business with BEL. In 1Q96, NYN's proportionate share of BEL/NYN Mobile contributed an incremental $0.10 per share in 1Q96. Cellular subscribers increased 41.9% year to year in 1Q96, nearly in line with the 43.4% year to year growth in 4Q95. This reflects 217,000 net adds in the quarter, or about 20% growth in net additions over the level in 1Q95. Operating revenues before equipment costs at BEL/NYN Mobile grew 29.6% year to year, slightly above the 27.3% growth in 4Q95, and includes a decline in monthly revenue per subscriber. Average monthly revenue per customer fell to $57 in 1Q96 from $61 in 4Q95 and $62 in 1Q95 [illegible] year to year decline. A big part of the decline in monthly revenues per subscriber is due to BEL/NYN Mobile's successful "TalkAlong" product which targets lower usage customers acquired at lower costs per gross add and increased profitability.

International. NYN's international ventures realized continued strong volume growth in 1Q96, particularly NYNEX CableComms and TelecomAsia. Revenues at CableComms increase 85.8% year to year in 1Q96, accounting for most of the 12% (normalized for directory revenues) increase in NYN's non-telco revenues in the quarter. As of 1Q96, CableComms provides service to 212,000 cable subscribers with a penetration rate of 19.7% of the 1.07 million homes released to sale. Year-to-year cable subscriber growth was 63.1%, compared with the 61.5% 4Q95 growth rate. On the telco side, CableComms telco subscribers reached 268,000 in 1Q96, with a penetration rate of 25.9% of the 1.03 million homes released for sale. Year-to-year increase in telecom lines was over 129%, compared to 138% in 4Q95. TelecomAsia, NYN's strategic alliance in Thailand reached a level of over 1.7 million telephone lines installed by the end of 1Q96. In addition, NYN began construction on its Fiber Link Around the Globe (FLAG) project, which could be dilutive by about a penny per share over the next year.

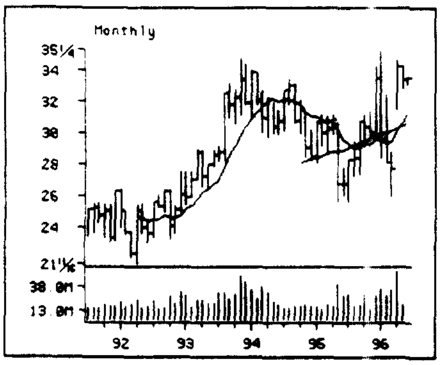
Pacific Telesis (PAC) Rating: Buy

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E	12/97E	12/96E	12/97E	Divd	Yield
33 1/4	35-26	$2.46	$2.63	$2.45	12.6	13.6	$1.26	3.8%

* Operating EPS

Highlights

Operating EPS 2Q96E $0.65 versus $0.61 in 2Q95



Courtesy of ILX

- **First quarter EPS ahead of expectations**. PAC reported first quarter operating earnings of $0.70 per share, well ahead of our $0.63 estimate, and 7.7% AHEAD of the $0.65 per share operating earnings in 1Q95; this is in sharp contrast to the negative earnings comparison PAC had been experiencing since 3Q94. Although PAC realized $32 million in pretax cost savings (or about $0.03-$0.04 per share) in its benefit plans which will continue into future quarters, the magnitude of improvement in its volume trends, revenue growth and earnings indicate a positive shift in its fundamentals. These strong trends are a result of: a clear rebound in the California economy, ongoing marketing initiatives, and the absence of the regulatory mandated rate reductions with the removal of the productivity factor, which impaired PAC's past financial performance.

- **Resumption of revenue growth on stronger than expected volume trends**. Several key positive factors coalesced in the quarter to deliver nearly 5% revenue growth, a remarkable level in contrast to negative growth PAC had experienced for more than a year. Among these factors are strong customer demand for traditional and new services, a lack of material rate reductions, and apparent toll share stabilization. This, coupled with PAC's consistent and aggressive cost containment efforts, enabled bottom-line earnings.

- **Raising our 1996 estimate based on the better than expected earnings report**. We are raising our 1996 earnings estimate by a dime to $2.63 per share, an estimate we view as conservative to reflect the ongoing pension cost savings ($120 million in 1996), stronger volume and revenue trends, continued marketing initiatives (including the introduction of caller ID in June 1996 for the first time), and the potential for higher cost savings from its workforce reduction program, now expected to accelerate by one year. We will be maintaining our 1997 estimate. We are choosing to be conservative with our estimates given that PAC will be facing increased local competition, higher marketing costs, and dilutive effects from its investment in PCS to be rolled out late 1996 and 1997 along with its wireless cable business.

Investment Position

We reiterate our Buys on PAC and SBC. The better earnings outlook strengthens our Buy recommendation for the PAC shares on a stand-alone basis (i.e., if the merger were not completed), as well as validates SBC's merger proposal, which looks more savvy. We have increased confidence in our Buy recommendation on the PAC shares, which had been linked to our Buy on SBC based on the specific terms of the deal. The better-than-expected earnings report from PAC more clearly justifies the premium SBC was willing to pay (40% premium on pre-merger depressed share price) though the magnitude of PAC's earnings improvement, if sustainable, allows us to speculate that our post-merger 1997 estimate of $3.60 per share for SBC, inclusive of dilutive effects, **may prove to be quite conservative. Therefore we strongly reiterate our Buy recommendation on the SBC shares trading at a discount to the group, in contrast to their warranted premium valuation.**

First Quarter Highlights

PAC reported 1Q96 operating EPS of $0.70 per share, above our $0.63 estimate, and 7.7% above the $0.65 operating EPS in 1Q95. Operating EPS in 1Q95 excluded two one-time items with a net positive $0.02 per share impact. PAC realized a $44 million tax credit ($0.11 per share), partially offset by $37 million in after-tax costs ($0.09 per share) in overtime due to severe weather. On a reported basis, PAC's EPS were $0.70 in 1Q96 vs. $0.67 in 1Q95, or a 4.5% gain.

Positive year-to-year comparison in earnings is primarily associated with the close to 5% increase in revenues year to year. This is the first increase in over a year, driven by strong volumes, coupled with the operating efficiencies from aggressive cost containment efforts.

Stronger Growth. Telco volume trends were much improved, and moving towards the RHC average. This quarter exhibited the strongest demand in access lines that we have seen in California in many years, reflecting the improving economy.

Total access line growth in 1Q96 was 3.9%, well above the 3.0% gain realized in the 4Q95, with second access lines largely responsible for the increase. Business line growth was higher in the quarter, at 5.4%, the highest level in five years, compared to 4.9% in the previous quarter. Residential line growth in 1Q96 exhibited the best improvement at 3.1% growth year to year, above the 2.1% year-to-year growth in the previous quarter. Additional residential access lines, are now at a 20% penetration level, at the high end of the industry, and total 1.9 million lines. Additional lines comprise 60% of residential line growth, and grew 11% year to year in 1Q96. ISDN lines, an important component because of their higher pricing and potential for vertical services, grew over 144% year to year, and stands at 66,000 lines at the end of the quarter. PAC's 24% sequential increase in ISDN lines reflects its aggressive deployment strategy as it believes its California market is technologically ripe for this service.

Total minutes grew 10.0% year to year, down from 11.0% in 4Q95. Interstate minutes grew 6.1% in 1Q96 up from 3.1% in the previous quarter, while intrastate minutes growth fell to 15.1% growth from the 21.3% growth in 4Q95. PAC expects to see inter- and intrastate access growth to be similar with reduced arbitrage between the two services. The drop in the growth of the intrastate access minutes is the result of the stabilization of PAC's mar share loss in toll volume. In the past, when competitors took toll volu from PAC they would interconnect through PAC's network, generat increased intrastate access volume.

Total revenues were up 3.5% year to year on a reported basis, or clc to a very healthy 5% as the reported growth is understated for 1! adjustments ($11 million in intrastate access and $24 million in toll). Thi the first quarter to exhibit a year-to-year increase in revenue since 1994. revenue growth is attributed to three key factors: (1) an improving econo in California enabled the company to generate record strong telco volu including business lines, second lines and ISDN lines; (2) this is the f quarter in which PAC does not have a negative comparison with respec the rate cuts implemented on January 1, 1995; and (3) an impro regulatory framework that suspended the productivity offset factor. PA toll decline has also stabilized at about 5%, though we expect that contin losses could occur as local competition increases in 1997. PAC continue experience strong customer demand for new calling features and vc messaging in the quarter, with voice mail equivalents up 25.1% to million units. The growth for these services will benefit PAC by provid greater revenue and enhanced margins in the future. Importantly, PAC be introducing Caller ID in June 1996 for the first time in Califor (regulatory issues prevented easy introduction before), and should stimul meaningful incremental revenue within a year.

Continued strong cost containment efforts. Total operating expen before depreciation were down 1.2% year to year. The main driver of expense reduction is PAC's efforts at improving efficiency and cost con in its core telco business. Cost of Products and Services declined over 1 year to year as a result. PAC also benefited from $32 million in cost savi related to changing its assumptions on its employee benefit plans, which be ongoing with its workforce reductions to the tune of $120 million. expected, partially offsetting this expense control was hig advertising/marketing expenses in 1Q96 year to year, which will contir PAC had about $15-$20 million in costs associated with the required syste implementation for competition (e.g., billing). These costs are first-qua oriented, however, we anticipate a ramp-up of other operating c associated with new businesses, notably wireless cable and PCS.

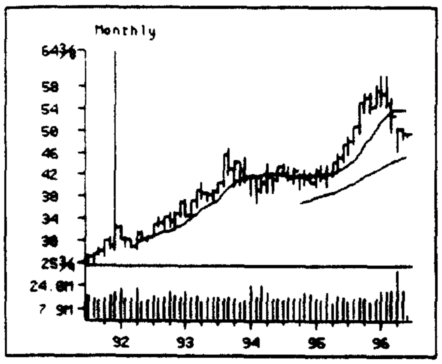
Total operating expenses in 1Q96, down 1.1% from 1Q95, due to PA stringent expense control efforts. PAC expects to accelerate its 10, employee reduction program by one year, with completion by year-end 19 PAC's workforce declined 4.8% year to year, as anticipated. However, would note that PAC is beginning to reflect incremental costs associa with its aggressive broadband deployment plans which will offset some the savings as the company hires additional talent to position for new gro opportunities and sets up shop. Excluding Pacific Bell Directory and Pac Bell Mobile employees, PAC's telco workforce stands at 28.1 te employees per 10,000 lines, among the lowest of the RHCs, and an 9. improvement from the 31.2 employees per 10,000 lines registered in 1Q9

SBC Communications (SBC) Rating: Buy

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E	12/97E	12/96E	12/97E	Divd	Yield
49 5/8	60-43	$3.08	$3.4	$3.80	14.5	13.0	$1.72	3.5%

* Operating EPS

Operating EPS 2Q96E $0.82 versus $0.73 in 2Q95



Courtesy of ILX

Highlights

- **First Quarter operating EPS above expectations.** SBC recorded strong 1Q96 operating EPS of $0.76, ahead of our $0.74 per share estimate, and 17% above 1Q95's $0.65 operating EPS, which included foreign exchange losses associated with its interest in TMX. We would point out that TMX has made a positive contribution swing year to year, and with its recent share buybacks, SBC's interest in the company is now approaching 11%. Earnings growth reflected strong revenue and volume growth in SBC's domestic operations, partially offset by dilution from international businesses, which should start to trend down.

- **Nearly double-digit revenue growth driven by strong telco and cellular volumes.** SBC's higher telco and cellular volumes, combined with reduced rate cuts and accruals, translated into nearly 10% revenue growth in 1Q96. Access lines grew a robust 4.9% year to year versus 4.5% growth in the previous quarter benefiting from strong additional line growth. Cellular subscribers grew 23% year to year, vs. 22% growth in 4Q95, with an industry leading 9.4% penetration rate.

- **Maintain Buy Rating; Raising Estimates.** We recently upgraded SBC to a Buy recommendation from a long-standing Hold, following the decline in its share price after the announced acquisition of Pacific Telesis. SBC shares are currently trading at a discount to its peers, in contrast to a historical premium, yet have above-average volume, revenue and earnings growth. In addition, we believe their are complementary benefits from the combination with PAC which should strengthen SBC competitive position while providing for higher growth later in the decade. We are raising our 1996 and 1997 EPS estimates by a nickel to $3.40 and $3.80, respectively, to reflect SBC's continued strong double-digit earnings growth. We note that our 1997 estimate does not reflect expected dilution from the merger with PAC, which we estimate will reduce our estimate to about $3.60 per share.

Investment Position

EPS above expectations and returned to double-digit growth rates. SBC generated 1Q96 operating earnings of $0.76 per share, in a relatively clean quarter. This was a 17% gain over the previous year's $0.65 per share, which included net losses of $0.06-$0.07 per share related to foreign exchange losses on its interest in TMX. SBC's operating EPS results were above our $0.74 estimate, and a return to the double-digit levels (after a brief dip in 4Q95) the company works hard to preserve. We believe SBC will be able to continue double-digit growth throughout 1996. The strong operating earnings in the quarter reflect nearly double-digit revenue growt (9.9%) helped in part by superb volume growth in its telco business an strong cellular net additions. In addition, rate reductions, as expected were reduced in the quarter. SBC's interest in TMX, which is now closer to 1?% given the recent share buy backs, exhibited a positive swing in contributio year to year from the negative impact in 1Q95. Overall, SBC's internationa operations generated about $0.02 per share in dilution in the quarter partially offsetting the strong domestic results, however, this dilution shoul become more modest later in the year, with $0.05-$0.07 per share in dilutio expected for the full year.

We upgraded our recommendation for SBC to a Buy, after it announced th acquisition of Pacific Telesis (PAC-3 35/8-Buy). We cited two reasons for thi upgrade. First, since the announcement, SBC shares were trading at discount to their peers (14.4 times 1996 revised EPS compared to 14.6 time on average) in contrast to their historical premium. We believe that it is a an attractive valuation relative to its above average earnings growth. Second we have a favorable outlook on the merger with PAC, which though dilutiv to 1997 earnings, will provide for higher growth prospects longer term. W believe SBC gains complementary benefits from the merger that wil enhance its competitive position. In addition, we see growth opportunities a a result of the merger through PAC's two PCS licenses in California, an are that SBC's cellular footprint does not cover, and through greater access t international calling. As a result of SBC's strong 1Q96 results, we ar raising our 1996 and 1997 EPS estimates by a nickel to $3.40 and $3.80 respectively. We note that our 1997 estimate does not reflect dilution fron the merger (expected to close in late 1996). We estimate that this dilutio could bring our 1997 estimate down to $3.60 per share, before returning t double-digit growth in 1998.

First Quarter Highlights

Volume trends in its telco operations were strong and above the fourtl quarter results, and SBC ramped up significantly in 1Q96 in terms o cellular subscriber net adds (148,000 in 1Q96 versus 100,000 in 1Q95 which was above our estimate of 125,000. SBC exhibited higher year to yea growth at 23.1% in 1Q96 (compared to 22% in 4Q95) off of the highes penetrated cellular base (9.4% penetration) among the large providers. SB(believes it can add a similar number of subscribers in 1996 as in 199 (667,000), implying subscriber growth of about 18% year to year in 1996.

Access line gains of 4.9% year to year in 1Q96 were above the 4.5% rate in 4Q95 and above expectations for 4.5% growth. Business lin growth was better, with total gains of 7.8%, slightly above the 7.8% in th fourth quarter. The residential sector saw an annual increase in access line of 3.6% in 1Q96, up from 3.1% in 4Q95, benefiting from strong growth i additional lines (about one-half of the new residential lines) Second acces lines are likely to be an important contributor for total line growth in th future for SBC as well as the overall telco group. SBC has revised its lin growth target for 1996, to .5%-5.0% growth from 4.0%-4.5% growtt reflecting its confidence that higher demand will continue. Minutes of us [illegible] year to year, above the [illegible]% gains in 4Q95. SBC continues to see strong demand in its region, particularly in Texas which accounts for 55% of intrastate revenues.

Additional cellular comments Monthly revenues per subscriber in 1Q96 were $55, down from the $58 level in 4Q95 and a 4% year-to-year decline. The decline is probably a bit better than the declines seen in other companies, and is reflected in SBC's ability to maintain higher margins. Cellular EBITDA margins in 1Q96 reached 43.5% an improvement from 4Q95's 39.1%, which reflected higher marketing costs typical of the fourth quarter, but down from the 45.6% level in 1Q95 due to the significantly higher number of net additions in 1Q96. Nevertheless, these margins are at the high end of the industry. **Importantly, SBC has signed up about 350,000 of its cellular customers for long distance service, which is allowed under federal legislation and should start to contribute to revenues and customer retention.**

Total revenues grew a healthy 9.9% year to year, inclusive of about $20-$25 million in reduced revenues associated with a terminated directory contract with GTE. Revenues in 1Q96 reflected reduced rate cuts compared to the $40 million in incremental rate cuts in 4Q95 and did not reflect FAS 106 accruals as did 4Q95. The robust revenue growth mirrors the strong volume demand for access lines and vertical services. Toll revenues reversed their decline in the quarter, improving 6.8%, stemming the competitive share loss. Telco revenues grew at 8.4 in 1Q96, well above the 4.5% in 4Q95.

Total revenue growth was slightly below the 10.8% growth in cash operating expenses. A large part of the increase year to year is due to the telco unit, which is realizing higher SG&A expense, primarily to stimulate marketing programs for value-added services.

Total SBC telco employees were modestly down year to year by 0.2%, although SBC plans on a reduction of 2,400 employees over the next two years which will enhance its competitive position. From a productivity standpoint, which lags some of the other RHCs, SBC improved 4.9% year to year with 33.3 employees per 10,000 access lines in 1Q96, versus a 35.0 level in 1Q95.

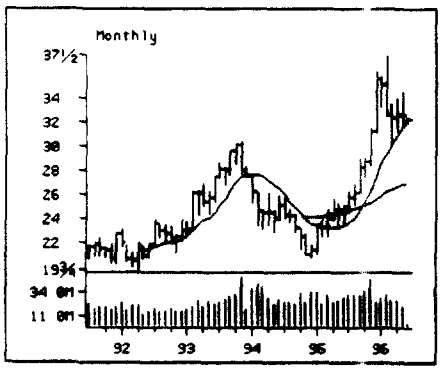
Dilutive impacts from SBC's international businesses other than TMX, (i.e., France cellular, South Korea cellular, and U.K. cable) was about $0.02 per share in the quarter, but is expected to trend downward throughout the year. For the year SBC is looking for $0.05-$0.07 per share dilution, compared to $0.10-$0.12 dilution from these businesses in 1995.

U S West Communications (USW) **Rating: Hold**

Price	52-Week Range	Earnings Per Share 12/95A*	12/96E	12/97E	P/E 12/96E	12/97E	Divd	Yield
32 1/2	38-23	$2.35	$2.45	$2.63	13.3	12.4	$2.14	6.6%

* Operating EPS

Operating EPS 2Q96E $0.62 versus $0.60 in 2Q95



Courtesy of ILX

Highlights

- **1Q96 EPS gain of 3.4% above expectations.** USW 1Q96 operating earnings per share of $0.61, before a $0.09 gain on a change in accounting principles, were 3.4% above the $0.59 per share operating EPS in 1Q95. These results were above our $0.59 estimate due to higher-than-expected volume growth in the quarter. Strong volume and revenue growth was offset by higher contract labor and overtime costs to improve USW's service quality ($23 million) and for flooding in the Northwest ($15 million).

- **USW delivered healthy volume trends at the upper end of the industry though not be translated into bottom-line earnings.** Normalized access line growth was 4.8% in 1Q96 above our forecast and the previous quarter's 4.2% normalized growth rate, in line with our forecast and the previous quarter's rate of growth. Total revenues grew 6.7% on a normalized basis, tracking the strong volume growth, and outpaced the 6.2% growth in operating costs (normalized for change in accounting, but not telco sales). USW has made significant progress in improving customer service quality, a high priority, although this has resulted in delayed cost savings and additional costs for new systems, negatively impacting its bottom line.

- **Maintain EPS estimates and Hold rating.** We are maintaining our EPS estimates for 1996 and 1997, which reflect strong top-line growth offset by higher costs related to service improvements, particularly in 1996. We are maintaining our Hold rating, which reflects our expectations for USW shares to trade at a about a 5%-7% discount to the group. We note that USW EPS growth, at 3%-5% for 1996, lags its peers, many of which are realizing double-digit earning growth. In addition, we are concerned about the emerging uncertainty regarding USW's state regulatory environment, specifically in Washington State where a large rate reduction has been ordered. This is in contrast to its peers who for the most part are making positive headway at the state level. **Based on a 10%-15% discount to the market on 1996 P/E ratio, we target a mid 30s per share price for USW within twelve months, not enough upside for a Buy recommendation despite its above-average (6.6%) dividend yield.**

Investment Position

USW reported first quarter operating earnings for continuing operations of $0.61 per share, before a one-time gain of $0.08 on the change of accounting principles for FAS 121. The $0.61 operating earnings for the quarter was [illegible] Q95's $0.59 operating [illegible] per share related to the [illegible] of rural [illegible] exchanges. The higher-than-expected earnings per share in the quarter was due to higher revenue growth than we had forecasted, driven by stronger volumes of value added services, offset by 3% lower toll revenues partly due to the introduction of 1+ dialing in Minnesota at the beginning of the year. The 6.[illegible]% revenue growth, normalized for telco sales, exceeded the expected high expenses, up 6.2%, related to new services, improving service quality, and overtime for severe flooding in the Northwest during the quarter. We would note that the increase in operating expenses is normalized for the change in accounting principles, which effect depreciation, but does not account for the sale of telcos. At this juncture, we are maintaining our 1996 and 1997 earnings per share estimates, which reflect strong revenue growth offset by higher expenses to meet the high demand for new services while improving service quality. In 1996, we expect to see about 5% revenue growth, despite about 9%-10% decline in toll revenues, which will be offset by higher expenses, notably marketing, depreciation, interest expense, and taxes. **We are maintaining our Hold recommendation due to the lower EPS growth (3%-5% in 1996, 7% in 1997), compared to many of its peers growing at double-digit rates. We are also concerned with the recently emerging uncertainty with respect to USW's state regulatory environment. We believe the USW shares warrant a 10%-15% discount to the market P/E multiple on our 1996 EPS estimate, translating into a mid-30s price target.**

Problems at the state regulatory agencies are arising. We believe that USW's recent problems at some of its state regulatory agencies could be a serious issue that could depress the stock until the issues are clarified. We will be carefully monitoring the regulatory events in Washington State. USW is addressing the recent Washington State $91.5 million rate reduction order, which to a small degree covered service quality issues, and followed USW's filing for a $205 million rate increase over four years. USW has appealed the rate case, asking for a stay and $50 million in higher rates effective May 1. While USW is improving its service levels compared to a year ago, service remains an issue. Also in the quarter, the Oregon PUC reverted back to rate of return regulation, citing service quality problems. USW must address these issues quickly, or face losing ground to its competitors who are generally experiencing positive developments with their respective commissions.

First Quarter Highlights

Strong telco volumes reflect the upper end of RHC range. Access lines grew at a normalized 4.8% rate in 1Q96, above the 4.2% level in 4Q95, with both rates normalized for the sales of rural access lines. Business lines grew at a stronger normalized rate of 7.2% compared to a normalized 5.9% in 4Q95, with five states in excess of 8% business line growth. Residential lines grew 3.8% in this quarter on a normalized basis, compared with 3.6% in the previous quarter. Additional access lines accounted for 50% of the residential line growth, reaching a 9% penetration level. Minutes of use were up 10.3% year to year (understated as it is not normalized for sales) above the 9.3% year-to-year in 4Q95. USW increased the number of caller ID subscribers by over 100% in 1Q96, and now has 15.3% penetration.

Revenues tracked the strong volumes, outpacing growth in operating cost despite higher expenses for service improvement and floods in the northwest. Revenues grew robustly, up 6.7% year to year in 1Q96, normalized for the sale of rural telcos during the year, versus the normalized 5.3% year-to-year growth in 4Q95. The current quarter included a 3% loss of toll revenue ($9 million impact in the current quarter) in part due to 1+ dialing that went into effect at the beginning of 1996. For the full-year 1996, we expect a 9%-10% reduction in toll revenues (about $30 million) as Arizona also approved 1+ dialing in April. However, USW will recoup about 55% of the lost toll revenues in access revenues. Incremental rate cuts in the quarter were about $19 million, compared to $28 million in 4Q95. We would point out that CLASS service revenues grew over 120% in the quarter compared to 1Q95.

Revenues outpaced operating costs in the quarter. Operating costs, excluding depreciation, grew 6.6%, and inclusive of depreciation grew 6.2% year to year after adjusting for an $8 million pre-tax benefit from FAS 121. We would note that the growth in operating expense is not normalized for the sale of local telcos throughout the year, suggesting the growth was likely higher than 6.2%. Operating cash flow margins in 1Q96, at 45.2%, were above the 43.4% margins in 4Q95, but remained relatively flat with the 45.3% margins generated in 1Q95. The flat margins year to year are partly the result of contract labor and overtime, $38 million in the quarter with $15 million of this due to flooding in the Northwest and the remaining $23 million due to service improvements. This compares to $38 million in 4Q95 for service improvements. As a result of the higher expenses taken over the last several quarters, USW is seeing improvement in many service areas. Specifically, USW is now at an 94% rating on handling calls within 20 seconds of receipt and has reduced held orders within 30 days for primary service by 25%. Repairs within 24 hours improved to 55% compare to 33% a year ago. USW generated only a 2.0% productivity gain in telco employees per 10,000 lines in 1Q96, which reached 32.1 compared to 32.8 at the end of 1Q95. Although it is reducing employees in certain telco areas, it is also adding back employees in the higher revenue growth areas. For 1996, USW expects a net employee reduction of 500

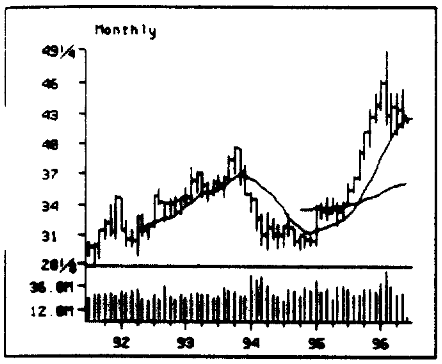
GTE Corporation (GTE)

Rating: Buy

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E	12/97E	12/96E	12/97E	Divd	Yield
42 5/8	49-32	$2.61	$2.90	$3.23	14.7	13.2	$1.88	4.4%

* Operating EPS

Operating EPS 2Q96E $0.67 versus $0.60 in 2Q95



Courtesy of ILX

Highlights

- **1Q96 operating EPS growth of 10.7% provides strong confidence in sustainable double-digit earnings growth ahead.** GTE recorded 1Q96 operating earnings of $0.62 per share, excluding a penny contribution from a telco property sale, in line with our $0.62 estimate, and 10.7% above the previous year's $0.56 operating EPS.

- **Above-average volume trends, strong revenue growth and higher operating margins in telecom operations.** GTE's domestic telephone operations generated robust and accelerated telco volume trends at the upper end of group providing solid telco revenue growth this quarter, inclusive of expected and reduced levels of rate reductions. Additionally, GTE is benefiting from continued productivity improvements (up 14% year to year), yielding higher operating margins.

- **Improved cellular results, as GTE balanced wireless subscriber growth – which was below previous levels but solid – with stable monthly revs per sub, improved churn, and margins.** Cellular subscriber growth, at 26% year to year, is below the 28.7% registered in 4Q95 and roughly in line with our expectation following company guidance of increased emphasis on improving customer churn rate (which is still above average but declining) and focusing on higher revenue-generating customers, which should result in improved operating margins in future quarters.

- **Reiterate Buy at attractive valuation despite better growth; better outlook, especially in offering integrated services**. We are reiterating our Buy recommendation given GTE's attractive valuation – in line with its peers – relative to its above-average growth prospects and strong national positioning. We expect GTE to benefit from offering integrated services, inclusive of long distance services, to its large customer base, currently being offered in several states and expanding to its key markets. GTE is ahead of its peers because of the removal of its consent decree restriction – a separate subsidiary requirement – which is enabling the company to move quickly to offer a full integrated service package to its customer base. We are maintaining our EPS estimates at this time, reflecting our positive expectations.

Investment Position

The strong operating gain mirrors the strong fundamentals in the company's core businesses, particularly telco, which are exhibiting stronger volume and revenue growth than in previous quarters. We estimate that GTE's investment in CANTV, the Venezuelan telco, was modestly profitable in 1Q96, a turnaround from a modest loss for the full year 1995. We saw robust volume growth in the telco operations with better trends in its cellular businesses.

GTE is currently trading in line with the RHCs average P/E multiple of 13.3 on our 1996 earnings estimates, and offers a premium dividend yield over the 4.2% RHC average (excluding USW). We believe that a few catalysts exist to provide GTE shares with a premium valuation, notably: (1) strong core performance in its telco and wireless operations, (2) greater recognition of GTE's national presence, scale and brand, (3) strong growth potential and better customer retention as GTE resells long distance as part of an integrated service package, and (4) international businesses, notably in Latin America (e.g., Argentinean cellular) which will provide better returns long term. GTE can afford to be more conservative in expanding its territory through acquisitions and has selectively joined joint ventures such as AmeriCast (Disney joint venture). Our twelve-month price target is in the low 50s based on achieving a 10% premium to the market on our 1996 earnings estimate.

First Quarter Highlights

Telephone operations continue to exhibit above-average growth. Above-average volume trends in 1Q96 were for the most part at or better than the fourth quarter. GTE is experiencing solid growth throughout its telco operations.

– Total (switched and special) access line gains of 6.2% (including 3.6% for foreign telcos restated for a change in Codetel and 6.6% domestic) accelerated from the 4Q 1995 rates of 5.8% domestic growth, while foreign access line growth were modestly better. Domestic switched access lines were up 4.0% in 1Q96, similar to the 4.0% in 4Q95, while faster growing special access lines, now accounting for 10% of its total lines, grew 35.5% versus 32.5% in 4Q95. This is the strongest total access line growth that we have seen from GTE. GTE's total access line growth is at the upper end of the telco range, and well in excess of the expected RHC average of 3.9%-4.0%. Similar to the overall telcos, GTE is experiencing strong growth rates in additional lines accounting for about half the residential growth and ISDN growth.

– Access minutes of use grew 9.7% year to year, below the 10.8% annual growth in 4Q95, with 17.0% increase in intrastate minutes (versus 19.3% in 4Q95) and 5.9% increase in interstate minutes year to year. (versus 6.5%) The large increase in intrastate minutes, is due to two factors: (1) higher minutes from long distance carriers who, since the opening of the toll market to competition, have picked up toll calls which must be terminated on the local exchange carriers' access lines; and (2) volume stimulation from incremental rate cuts, particularly in California.

Telephone revenue growth was up a strong 3.8%, a bit below the seasonally stronger 4.5% registered in 4Q95 based on pro forma revenue, normalized for reduced revenues associated with the access lines sold in the previous year. We would note the strength of the telco revenue growth year to year (versus flatter gains in 1995 overall) is due to reduced revenue reductions. The quarter contained $22 million in incremental rate cuts ($29 million intrastate and mostly in California, offset by an interstate increase), compared to $110 million in the previous quarter. GTE will continue to take voluntary cuts to remain competitive, but the magnitude of the reductions will moderate from the levels experienced over the past few years. This will allow for solid revenue growth to track strong volume trends. Toll market share loss in California appears to have stabilized at around an 11%-12% share loss. GTE has just begun rolling out services from its Advanced Intelligent Network (AIN) platform, which are software-generated services such as "In Contract," a single telephone number that gets routed according to the customers instructions.

Telco operating income was up 6.2% normalized for access line sales, up from the 3.2% growth in 4Q95, which was impacted by the unusual fourth quarter specific productivity software costs, programming costs and other miscellaneous items. Telco operating margins, at 29% in 1Q96, were above the 24% level in 4Q95, and on an adjusted basis were above the year earlier 28.3%. GTE's telco workforce has declined about 6.6% in the past year, providing a 14.2% improvement in productivity as measured by access lines per employee. We expect to see a more significant portion of cost savings next year while some of the savings will flow into lower pricing as GTE, along with the industry, gears up for competition.

Cellular subscriber growth of 26% was below the previous quarter's year-to-year rate, as expected, but reflects GTE management's focus to balance net adds for increased profitability. The cellular business is becoming a larger contributor to GTE's revenues, now 12.2% of the total, versus 10.6% a year ago. Overall, the cellular unit generated solid subscriber growth, reduced churn, and higher operating cash flow margins. Domestic cellular subscribers grew 2.8% sequentially and 26% year-to-year, a lower rate of growth than the 5.5% sequential growth and 29% year-to-year growth in 4Q95 This was expected, but importantly, it reflects a strong attempt by GTE to manage its growth to more sustainable levels while improving its high churn rate. GTE's churn rate modestly declined in the quarter to 2.5% from 2.7% in 4Q95, at the high end of the industry, where the average is 1.9%-2.0%. A significant part of its churn rate is due to increased competition from other wireless carriers and its own successful Tele-Go product, a PCS-like offering for more casual users. Tele-Go subscriber growth has exceeded expectations, with a lower cost per gross addition compared to cellular, mirroring its lower monthly bill ($43 per month) compared to traditional cellular ($61 per month). GTE's cellular service revenues grew 21.7% year to year in 1Q96, compared to 26.7% year to year in 4Q95, reflecting the lower subscriber growth. Monthly revenues per cellular subscriber remained relatively stable in 1Q96 with 4Q95 at $61, but fell 3.1% from the $63 level in 1Q95. GTE's monthly rate per subscriber reflects greater stability in subscriber revenues than experienced by the industry. GTE's cellular service revenues grew [illegible] year to year in 1Q96, compared to 26.[illegible]% year to year in 4Q95, reflecting the lower subscriber growth. Monthly revenues per cellular subscriber remained relatively stable in 1Q96 with 4Q95 at $6[illegible] but fell 3.1% from the $63 level in 1Q95. GTE's monthly rate per subscriber reflects greater stability in subscriber revenues than experienced by the industry. GTE's rapidly expanding cellular operations generated operating cash flow margins of 37.8%, ahead of last quarter's 35.2% level, and the 37.3% in 1Q95. GTE will continue to aggressively manage its subscriber growth for reduced churn, lower gross add costs, and improved profitability. This probably means subscriber growth in the 25%-27% range in 1996 year to year.

GTE's investment in CANTV, the Venezuelan telco, was slightly profitable in 1Q96, compared to about breakeven in 4Q95. GTE's international cellular subscribers (mostly Argentina and Japan) grew 61.6% year-to-year, down slightly from the 67% gain in 4Q95.

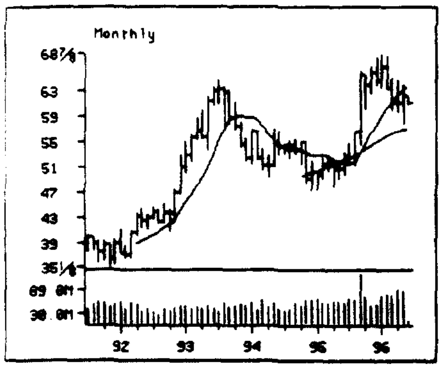
AT&T (T)

Rating: Buy

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E*	12/97E*	12/96E	12/97E	Divd	Yield
62 3/8	69-49	$3.30	$3.70	$4.10	16.9	15.2	$1.32	2.1%

* Operating EPS; Continuing operations only

Operating EPS 2Q96E $0.96 versus $0.86 in 2Q95 (Continuing Operations)



Courtesy of ILX

Highlights

- **Continuing operations (AT&T Communications) generated $0.90 operating EPS in 1Q96, a 12.2% increase from the restated $0.80 operating EPS from 1Q95.** EPS growth was a penny above our $0.89 expectations; however, volume trends were mixed, with slightly weaker-than-expected long distance volume and solid wireless subscriber growth. On the positive side, we expect AT&T to maintain or slightly improve on this level of operating earnings growth throughout 1996, above earlier trends.

- **Long distance revenue growth was in line with expectations, and volume growth slightly below expectations.** Long distance volume growth, at 7.7%, was slightly below our 8.0% forecast. Importantly, AT&T's negative gap between long distance revenue and minutes growth improved in the quarter, to 2.3% from 2.8% in 4Q95, due to an improved product mix. Although AT&T had competitive pressures in the consumer segment in the quarter, accounting for the softer volumes, we are confident that its broader service offerings, inclusive of new initiatives such as its investment in DirecTV, WorldNet (its Internet access), and local service, will enable AT&T to enhance its integrated service package and enable it to improve customer loyalty and retention, while regaining customer share.

- **Wireless service was strong in the quarter, with consolidated revenues growing nearly 22% year to year, and a 36.7% annual increase in consolidated subscribers, slightly above our 36% forecast.**

We reiterate our Buy recommendation with a $80 price target in twelve months, based on our sum-of-the-parts valuation, which includes AT&T's discontinued operations until they are spun off or sold. Our revised EPS estimates for AT&T Communications are $3.70 for 1996 and $4.10 for 1997. Given our expectations for 11%-12% earnings growth, we target at least a 10% premium to the market P/E for this business, or $68-$70 per share, plus about a $10-$12 value for the discontinued businesses, rendering our $80 target. AT&T's shares have been depressed recently due to a negative portrayal by the media regarding its substantial layoffs related to its restructuring and CEO compensation. Although AT&T has a lot on its plate, we believe it will result in a stronger, more focused company with a powerful brand name. This should enable it to achieve strong growth despite expected share loss in long distance, which we expect will be more than offset by the new opportunities.

Investment Position

AT&T reported first quarter operating earnings from its continu operations of $0.90 per share, a penny above our expectations, and 12.2% from the year-earlier restated operating earnings of $0.80. Th results do not include any impact from its equipment business, NCR AT&T Capital Corp., which have been reclassified as discontin operations as they will be sold or spun off by the end of the year. *O consolidated basis, inclusive of the discontinued operations, AT&T's 1(results were $0.85 per share, or 11.8% higher than the $0.76 consolida operating earnings per share in 1Q95.* We have revised our 1996 and 1 earnings estimates to reflect only our outlook for AT&T's continu operations, pegging an operating EPS of $3.70 for 1996 and $4.10 for 19 respectively. We believe that these estimates reflect strong growth thro AT&T's ability to bundle its broader array of services, some cost bene from its workforce reduction and streamlining efforts, offset by mo dilution from PCS and entry into local markets in 1996.

We reiterate our Buy rating on AT&T shares based on the company's str positioning in the global long distance market and its market share leader in the domestic wireless industry. Importantly, we feel that the greater fo on AT&T's continuing operations (long distance, wireless, and finan services) after the breakup is complete will lead to greater offensive (get into local service) and defensive (preventing long distance market share l strategies, mitigating some of the concerns on federal legislation that allow the RHCs into long distance. We believe that AT&T will benefit f increased local competition driving down its access costs. Longer te AT&T should emerge as a powerful integrated service provider with perh the strongest brand name globally. AT&T is pushing ahead in its l strategy, having signed up five competitive providers for access in 70 ci across the U.S. In addition, AT&T's alliance and investment in DirecTV its recently announced WorldNet (Internet access) strategy represent ano step in increasing its direct access to its customer and enhancing integrated service package to its 90 million customers. Despite the poten for investor concerns regarding increased competition overall, we believe evolution towards more exciting integrated services has begun, movement away from the merely commodity-oriented nature of the indus Based on our sum-of-the-parts valuation, we target a $80 price objective the next twelve months, which includes a $68-$70 value for AT Communications (17 multiple on our revised 1997 estimate) plus additional $10-$12 collective value for its discontinued businesses.

First Quarter Highlights

The 12.2% operating gain is impressive given the weaker-than-expe volume growth which was impacted by competitive pressure in the consu segment. Total continuing operation revenues grew 4.6% year to yea 1Q96, outpacing the 2.7% increase in operating expenses. Total opera margins improved to 18.3% in 1Q96, compared to 16.8% in 1Q95.

Communications Services [illegible] comprises AT&T's wireline (long distance), wireless [illegible] and services. Revenues from these business improved [illegible] compared to [illegible] Q95.

Long Distance (87% of total continuing operation revenues in 1Q96). Long distance revenues grew 5.4% year to year in 1Q96, in line with the level of growth in 4Q95 and at the low end of our expectations. AT&T reported switched long distance volume growth of 7.7%, slightly below our 8.0% forecast and the 8.2% year to year in 4Q95. We believe that the company's volumes are growing below the industry growth rate forecasted in the 11.0%-12.0% range. However, we expect AT&T's volume growth to improve throughout 1996 as its increasingly bundles its broader service offering, including DirecTV and WorldNet. WorldNet, which allows AT&T customers to dial up to the internet, has signed up 200,000 customers in just two weeks. We would also not be surprised if AT&T picked up a few basis points (about 50 basis points) in its growth rate in 1996 from the opening of certain intralata toll markets. The negative gap between long distance revenue and traffic growth was down to about 2.3%, compared to 2.8% in 4Q95 and in line with our estimate. **Importantly, the improvement in the negative revenue/volume growth gap is due to the fact that much of the significant migration of AT&T's customer base to discount plans is behind them and reflects AT&T improving product mix.**

In the business segment, AT&T experienced substantial growth in 800 services and inbound calling, with a greater emphasis on value-added services and data. AT&T also won back contracts from key customers including Sears and Norfolk-Southern. Despite strong growth in inbound business, AT&T's lower volume growth reflects increased competitive pressure during the quarter. We feel comfortable that AT&T can address such pressure. Within the consumer segment, AT&T is broadening its True programs to include its new DirecTV and WorldNet initiatives which will help customer retention and acquisition. We believe these services will allow AT&T to compete on its differentiated product rather than on price. AT&T will increase its bundled package to include these services as well as long distance and wireless.

Wireless (6.1% of total continuing operations revenues in 1Q96). AT&T's wireless unit results account for a small portion of total revenues (though larger than before the breakup), but its revenue growth, at 21.8% year to year, was significantly higher than the company's overall revenue growth. AT&T Wireless generated 36.7% year-to-year consolidated subscriber growth in 1Q96, compared to the 39% respective growth in 4Q95, with consolidated net additions at about 278,000, or 7.4% above the 1Q95 level. Cellular penetration on a consolidated basis now stands at 6.3%, versus 4.7% in 1Q95. The 21.8% total cellular revenue growth compares to the previous quarter's 25.9% gain. Through the use of alternative distribution channels, AT&T has been able to lower its customer acquisition costs. AT&T completed its equal access conversion with respect to its McCaw cellular customers at the end of 1995, enabling it to use the AT&T brand name to market wireless services nationally. We would also note that AT&T is already testing two PCS systems, in its Atlanta and Chicago markets.

Communications services operating margins improved 160 basis points year to year. Total operating income within Communications Services improved 15.7% year to year in 1Q96, with operating margins at 18.6%, up from 17.0% in 1Q95. The 5.5% gain in revenues outpaced the 3.5% increase in operating expenses. Notably, interconnection costs declined 6.4% year to year and now represent only 36.6% of long distance service revenues, compared to 41.2% in 1Q95 and 38.1% in 4Q95. Depreciation was reported for the first time this quarter, growing 7.4% year to year to $665 million, but reflected amortization of intangible assets from the back-end purchase of LIN Broadcasting.

Financial Services (3.7% of total continuing operations revenues in 1Q96). Revenues in the financial services segment declined 14.2% year to year due to the securitization of $3.5 billion in cardholder receivables in 2H95, which resulted in less revenue contribution. AT&T Universal Card has 17.9 million customer accounts outstanding, up from 17.6 million at the end of 4Q95. Including those securitized, AT&T manages $13.4 billion in receivables. The performance of its portfolio declined year to year, resulting in reduced operating margins for the Financial Services unit, down to 10.4% in 1Q96 compared to 12.3% in 1Q95.

The number of employees at AT&T's continuing operations declined 2.7% year to year and now stands at 126,100.

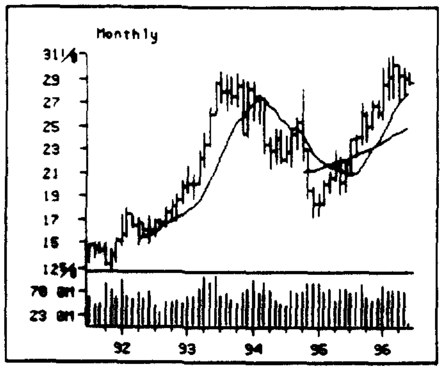
MCI Communications (MCIC)

Rating: Buy

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E	12/97E	12/96E	12/97E	Divd	Yield
29 1/8	31-19	$1.55	$1.70	$1.90	17.1	15.3	$0.05	0.2%

* Operating EPS

Operating EPS 2Q96E $0.42 versus $0.38 in 2Q95



Courtesy of ILX

Highlights

- **Above expectations with 16.7% operating EPS growth inclusive of net losses from fast-growing new ventures that mask the stronger core long distance business**. MCIC recorded $0.42 operating earnings per share in 1Q96 in a relatively clean quarter. This is a penny ahead of our $0.41 estimate and 16.7% above the $0.36 operating EPS in 1Q95. *Most revealing of MCIC's strength in its core long distance business is the $0.54 in EPS, excluding the new venture losses, up 8% sequentially and more than a 38.5% year-to-year compared to $0.39 per share in 1Q95.*

- **Robust long distance business with accelerating revenue, traffic growth in line with strong expectations, and the best margins in years.** MCIC's strength in its core long distance business – in all key segments – shone through in 1Q96 results with 14.1% revenue and 21.3% traffic growth year to year while operating margins improved significantly to 15.2%. These results exceeded our expectations and continue the positive momentum exhibited in the second half of 1995.

- **MCIC's new ventures -- local, wireless, information technology, and multimedia -- exhibited promising growth.** MCIC's broadened strategic initiatives to expand its service portfolio and offer integrated services through internal development and acquisitions contributed nearly 10% of MCIC's total revenues in 1Q96 (versus less than 1% in 1Q95), resulting in better customer retention as a high percentage of customers are linked to more than one product and essentially strengthened MCIC's core long distance business.

- **Reiterate Buy recommendation** given MCIC's accelerating strength in its long distance business, with positive strategic initiatives leading to better integrated service offerings, accelerated revenue growth, improved customer retention, and higher earnings growth longer term. Though MCIC exceeded our expectations in many respects, we are maintaining our earnings estimates, which should be viewed as conservative and consider ramping of higher costs for MCImetro, its local business, and its interest in Avantel, its joint venture to provide competitive long distance in Mexico later this year. We have increased confidence in its new business ventures, which have not always been immediately and clearly understood as part of a well thought out plan to favorably position MCIC in the rapidly changing landscape. This will be achieved while maintaining its now visible and robust pace of double-digit revenue and EPS growth. **We believe MCIC shares do not fully reflect the value of new ventures, which on a combined basis are**

worth at least $8-$10 per share in addition to MCIC's strong core long distance business which we peg in the mid $30s alone based on its annualized 1996 EPS of at least $2.15-$2.20 per share, providing our six- to twelve-month target in the $40 range.

Investment Position

MCIC's 1Q96 results continue the positive momentum we saw in the previous quarter, indicating that MCIC continues to be on the fast growth track. Long distance revenue gains of 14.1% in 1Q96 were ahead of expectations based on strong fundamentals in its core long distance business including 21% volume growth. Recent strategic initiatives – local, wireless, information technology and joint ventures – were revenue contributors to the quarter. MCIC reported 1Q96 operating results of $0.42 per share, a penny above our estimate, and 16.7% ahead of the 1Q95's $0.36 operating earnings. ***Importantly, MCIC's core long distance business alone generated operating EPS of $0.54 in 1Q96, up 8% sequentially and 38.5% year to year from the $0.39 EPS, offset by higher losses in its new businesses.***

We reiterate our Buy recommendation and are maintaining our 1996 and 1997 EPS estimates, which do not reflect MCIC's full EPS potential in that timeframe. We recognize that there will be continued dilutive effects in its new ventures (e.g., MCImetro, wireless) which tempers a potential increase. We look for strong revenue growth and improved margins, but also expect MCIC's entry into wireless as the largest reseller will go into full tilt in 1996 as well as a ramp-up in costs for MCImetro's expansion and its interest in Avantel, its Mexican competitive long distance joint venture. MCIC appears back on track with solid growth in its long distance business; its new ventures are showing strong revenue contributions and enhancing MCIC's long distance business, and more importantly providing strong and direct links with its customer base. Investors should take note of MCIC's segmented business reporting, which we believe achieves two goals. First, it exhibits the strength of its long distance operations. Second, it will unleash the hidden value of MCIC's promising new initiatives. We believe MCIC's shares do not fully reflect the values for some of these businesses, which collectively could command $8-$10 per share in addition to its strong long distance business valued in the mid $30s (using at least a 16 multiple on 1996 EPS of $2.15-$2.20, which should be viewed as conservative). **Based on our sum-of-the-parts analysis, our six- to twelve-month price target is $40.**

First Quarter Highlights

MCIC's first quarter results met or exceeded our high expectations in most respects. Most notably, strong year to year long distance volume and revenue growth at 21% and 14.1% respectively, was impressive, and well in excess of the industry's growth. Revenue growth when including new ventures (MCImetro, wireless, SHL Systemhouse, multimedia) was 26%; however, this compares apples to oranges, with 1Q95 with 1Q96 being the first full quarter inclusion of SHL Systemhouse. Several expected items masked the accelerating revenue growth and understated EPS of $0.42: (1)

$[illegible] million in incremental net losses associated with Avantel, its long distance venture with Banamex in Mexico; (2) a year-to-year $35 million reduction in pre-tax interest income from reduced cash reserves due to its investment in News Corp. and the acquisitions of Nationwide Cellular and SHL Systemhouse in 1995; (3) $10 million in net losses from MCImetro compared to break-even results in 1Q95; and (4) a $10 million net loss from its wireless business, up from $1-$2 million in start-up costs in 1Q95.

MCIC's core long distance business generated continued robust results in all measures – revenues, traffic, margins, and net income. Revenues were ahead of our expectations on tremendous traffic growth. Operating revenues of nearly $4.1 billion were ahead of our $4.0 billion estimate and up 14.1% year-to-year on a 21.3% annual gain in traffic volume. This was well above our estimated blended industry rate of about 11%-12% revenue growth (10%-10.5% domestic growth and 15%-20% international growth), the revenue and volume growth experienced by AT&T (5.4% revenue growth, 8.0% volume growth), and volume growth of FON (14.2% revenue growth, 17.3% volume growth). This quarter's year-to-year growth remains relatively stable with 4Q95's 15.5% revenue growth and 22% volume growth, though the 4Q95 levels benefited from a weaker year-to-year comparison. The negative gap between revenues and traffic increased to 7.2% compared to 6.4% in 4Q95, but has likely peaked and should trend lower, though remain above historical levels. The large negative gap is due to a product mix shift with stronger growth from the larger wholesale carrier traffic coming from contracts won in 1995 so future quarterly comparisons should improve. Although wholesale traffic contributes lower revenues per minute than retail traffic, it is positively accompanied by lower overhead costs, and therefore contributes similar or enhanced profits. In addition, the company enjoyed strong demand for business data services (30%+ year to year growth), international (20%+ year to year growth), and 800 services (45% revenue growth), while the consumer international segment, slowed a bit, but is still growing at higher levels than domestic long distance. **We would point out that data, historically a weakness for MCIC, now accounts for over 10% of long distance revenues.** Sequentially, MCIC recorded long distance revenue growth of 3.5% versus the 2.0% sequential growth in 4Q95, on 5.9% sequential traffic growth, indicating a narrower negative gap of 2.4%.

Operating margins within long distance reached their highest level in five years. Operating margins within the long distance segment improved 290 basis points to 15.2% in 1Q96, compared to a normalized 14.2% in 4Q95 and 12.3% in 1Q95. Driving the improvement in operating margins is MCIC's restructuring actions and productivity improvements, along with a decline in telecommunications expense as a percentage of long distance revenues (about 50.5% in 1Q95 vs. 52.5% in 4Q95 and 51.0% in 1Q95). We expect the current level of telecommunications as a percentage of long distance revenues will remain stable (rather than decline in 1996), however, longer term, given expectations for competition to reduce access charges, we expect it to drop. Longer term, we also look for MCIC to progressively lower its costs through the application of alternative access strategies (MCImetro) and reduced international settlements.